



Senate Bill 593

Social Impact Partnerships

Fact Sheet

Issue:

Social Impact Partnerships, also known as “pay for success contracts,” are a promising new financing mechanism for social programs. They have been a bi-partisan approach used by other states as well as the Obama Administration, which has a major initiative to expand their use. This financing mechanism offers government a way to partner with the non-profit and private sector to spur innovation in social programs, but by setting specific goals that can be measured, government only pays for success.

SB 593 would add California to the growing list of governmental entities that are pursuing Social Impact Partnerships.

Background:

While California spends millions of dollars on important social programs, fiscal constraints have forced either the elimination or substantial reduction of many services.

As California begins to contemplate how to restore funding to solve these complex social policy goals, Social Impact Partnerships can and should be an additional tool made available to our state government.

Social Impact Partnerships are a new financing mechanism for social programs operated and administered by non-government organizations (NGOs). The NGO enters into a contract with a state government agency. Specific program goals with agreed upon quantifiable target results are agreed to with a set time frame to achieve them. The NGO pays for the entire up-front costs of providing the service. If the service meets the

agreed upon quantifiable results in the specified time frame, it is reimbursed by the government for the agreed upon cost of the service along with an agreed upon rate of financial return. If the goals are not met, the government pays nothing.

Such partnerships allow for creative approaches to problems in specific policy areas while also transferring the risk of program failure to the private sector.

Both the federal government and other state legislatures have begun to utilize pay for success projects. Notably, the U.S. Department of Labor has funded a model project in Ohio. Additionally, the President’s budget allocates \$500 million to expand the use of Social Impact Partnerships.

Specific Social Impact Partnerships, if approved by the Legislature, can utilize different approaches. A contract may be with a not-for profit that funds the project directly, and then if successful, uses a rate of return to expand services or increase sustainability. Or a service organization may receive at-risk funding from private investors who would bear the risk of failure, but share in the rate of return if successful. These approaches maximize the use of limited governmental resources while combining public and private expertise. They also place an emphasis on accountability and building an effective social innovation program.

For example, in Massachusetts, the legislature recently passed legislation and appropriated money to fund pay-for-success projects. As a result of the legislation, the state has now entered into two contracts aimed at reducing recidivism in the

juvenile justice system and reducing chronic homelessness. These two projects are lauded by the



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state as having budgetary savings across impacted agencies and they expect future budget savings from minimal Medicaid spending.

Proposal:

The Social Impact Partnerships Pilot Project:

Senate Bill 593 would allow the Governor to solicit and then submit Social Impact Partnerships to the Legislature's budget committees for consideration. If the legislature appropriates adequate funding, the state would enter into Social Impact Partnerships with specific requirements similar to Massachusetts, including performance metrics, independent evaluation and significant performance improvements and budgetary savings.

Once an independent evaluator determines whether performance targets have been met, the contract would be funded through the Social Innovation Financing Trust Fund, created within the State Treasury.

Support:

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St. Francis Medical Center
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St. John's Well Child & Family Center
St. Louise Regional Hospital
St. Vincent Medical Center
Hon. Don Knabe, Chair, Los Angeles County Board of Supervisors

Opposition:

Right to Life

Contact:

Mark Mendoza, Senate Fellow
916.651.4028 or Mark.Mendoza@sen.ca.gov

Jeff Gozzo, Chief of Staff
916.651.4028 or Jeff.Gozzo@sen.ca.gov